

Dear friend,

Recent statistics from Equifax, Moody's Economy.com reflecting fourth quarter 2009 consumer credit trends show a drop in 30-day delinquencies of all household liabilities, including first mortgages, representing the first time we've seen a drop of this nature since the fourth quarter of 2005.

Even with this refreshing news, risk remains elevated. Furthermore, our research shows risk is shifting in many lending categories, with prime and super-prime consumers demonstrating increased risk. We are also seeing what may be early indications of shifting payment hierarchies for some consumers. This means lenders should examine their strategies for managing risk and, if necessary, adjust them to reflect current economic conditions. We've been detailing this data in our recent NewsBlast editions and this month we showcase auto loan trends (see "Did You Know?", below).

Access to accurate information allows lenders and risk managers to make better decisions. VantageScore Solutions will continue to share key findings in the area of credit scoring that may affect portfolio strategy decisions, loan loss reserve methodologies or may have future impact on valuations of asset-backed securities.

Our 2010 Webinar and white paper series will provide valuable information to a wide audience, including lenders, risk managers, banking regulators and members of the media and I encourage you to use www.vantagescore.com/research as a resource when needing important credit scoring information.

Sincerely,



Barrett Burns
President & CEO

Credit Scoring Cannot Replace Sound Underwriting Practices

Recent Hearings in Washington D.C. Explore Causes of Financial Crisis

In his recent testimony before the Financial Crisis Inquiry Commission, JPMorgan Chase & Co. Chief Executive Jamie Dimon cited an over-reliance on consumer credit scores as a contributing factor to last year's financial meltdown.

It's important to note Dimon's remarks because generic credit scores cannot uncover fraud on a loan application, predict absolute losses or evaluate ability or capacity to repay. Although a generic credit score is

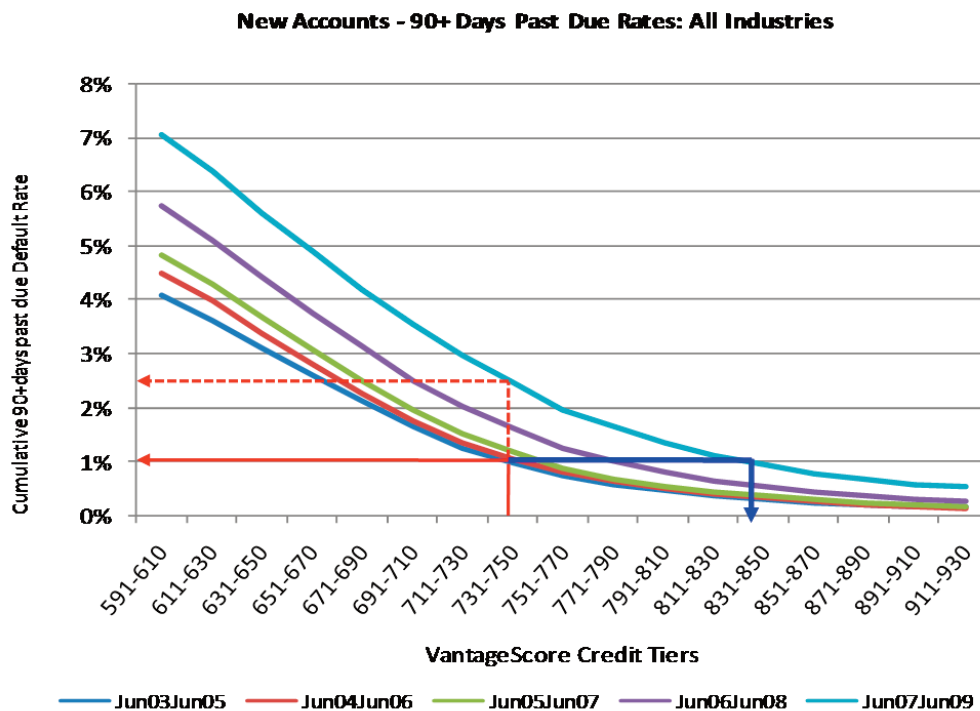
useful in predicting the propensity for default within a two-year timeframe, it cannot replace sound underwriting practices.

Credit scoring can serve as the first test of consumer creditworthiness, but should be part of a comprehensive and detailed process, not the sole criteria for evaluating loan applications.

VantageScore Solutions' research indicates risk is shifting - increasing at an accelerated pace for prime and super-prime credit tiers in all product sectors. Because of this, lenders must be aware that while a consumer's credit score may have remained unchanged, the risk it represents to lenders has not.

These findings suggest lenders should be reviewing credit score cutoff strategies and their score models. (See chart below).

Impact to Portfolio Risk from Consumer Credit Defaults



Looking at the chart above:

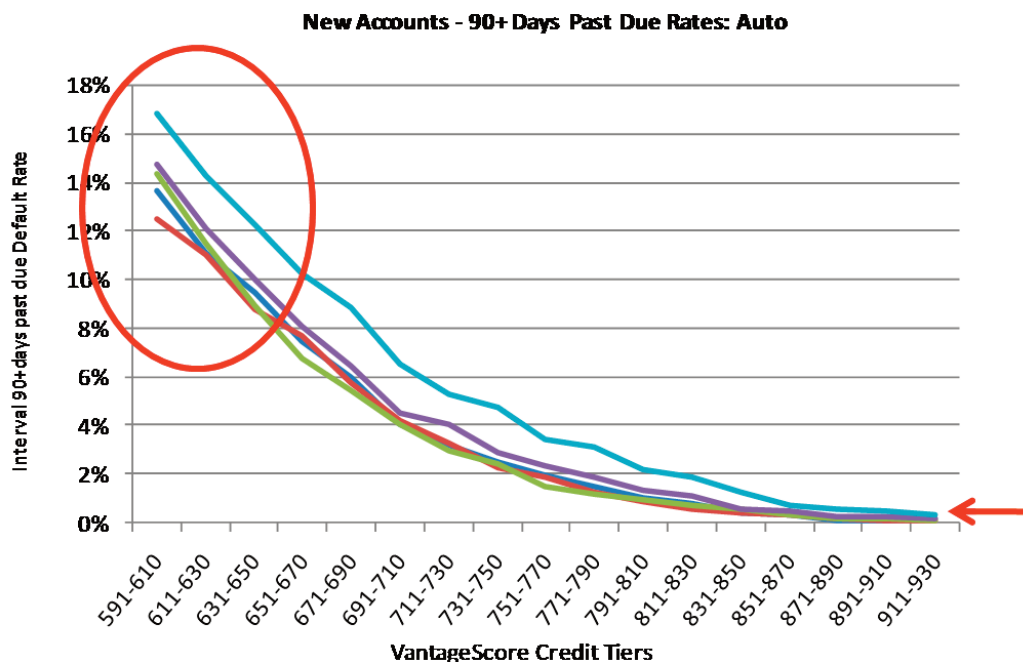
- Lenders using a 1% default strategy in 2003 would have set a cutoff of 750 for a VantageScore credit score (solid red arrow).
- In 2009, the same score cutoff would have resulted in a 2.5% default scenario (dashed red arrow).
- To maintain 1%, lenders would need to move the cutoff to VantageScore 850 (blue arrow). The full VantageScore scale is 501-990.

For the complete study can be found on our website:
<http://www.vantagescore.com/research/consumerrisk/>

“Did You Know?” VantageScore Solutions’ Research Shows Auto Loan Risk is Increasing

As we continue our NewsBlast series on shifting risks in lending ([The December issue discussed trends in bank card risk](#)), we now examine VantageScore Solutions’ latest analysis in the consumer auto loan sector.

This research confirms risk levels continue to climb for new loans in this sector, as they have in bank cards and mortgage loans. We examined risk levels of new auto loans for five distinct two-year time periods for the most common VantageScore credit tiers (The VantageScore range is 501-990 with a higher number representing lower risk).



Looking at the numbers in the New Accounts chart above, you will see that for the June 2003 – June 2005 timeframe, consumers in the 591-610 credit tier had a likelihood of nearly 14 percent of becoming 90 days or more past due on their auto loan. Those same consumers represented approximately a 12.5 percent likelihood of becoming delinquent during June 2004 – June 2006, meaning risk actually improved for consumers at this credit band for this period.

The opposite trend took place within the next timeframe (June 2005 – June 2007), with risk worsening for the lowest credit tier, rising beyond 14 percent for the first time.

During these same periods, risk remained relatively stable above the 700 VantageScore level, but by the June 2006 – June 2008 period, we begin to see dramatic change. Up to this point, risk had been fairly aligned in the prime and super-prime credit tiers, but during June 2006 – June 2008, risk increased for all consumers. Moving toward the super-prime category (VantageScore 850 and higher), the rate of increase was slower than other tiers, but still represents the first time risk has risen there. We attribute this to the recession and economic issues in the consumer real estate sector beginning to affect the auto sector.

In the June 2007 – June 2009 period, sub-prime risk increased from approximately 14.5 percent to 17 percent while increased risk is apparent at all credit levels.

VantageScore also examined historical payment hierarchy between December 2006 and June 2009 and found that in the early part of the timeframe, consumers generally paid their mortgage first, allowing auto loans and

credit card accounts to become delinquent when financially squeezed. Looking at payment hierarchy nearer the end of the timeline, we are observing early signs of a shift in payment behavior with some consumers becoming delinquent on mortgages while simultaneously remaining current on auto loans and credit cards due to a need for transportation and purchasing power (See <http://www.vantagescore.com/research>).

Finally, VantageScore Solutions' findings on shifting risks, whether in auto loans, credit card accounts or mortgage loans, reflects the need for lenders to regularly assess whether or not their credit scoring and risk management strategies are keeping up with these changing conditions.

"Lenders have now become accustomed to hearing about increasing levels of risk, while the shifting of risk from sub-prime credit quality tiers to prime & super-prime tiers adds a new dimension," said VantageScore Solutions President and Chief Executive Officer Barrett Burns. "Additionally, in an effort to keep risk within acceptable tolerances while also recognizing opportunity, the need to review portfolio management strategies is further underscored if we tie-together the known shift in risk with the possibility of a more pronounced shift in payment behavior. Ultimately, the steps lenders take in adapting to this volatile business environment will determine what happens in the credit markets."

VantageScore Solutions' Sarah Davies Discusses Tax Liens and Credit Scoring on BusinessWeek.com

With government statistics showing the amount of Internal Revenue Service liens filed increasing nearly 500 percent from 1999 to 2009, many people are curious about the impact a lien may have on a credit score.

A recent BusinessWeek.com article featured VantageScore Solutions' Senior Vice President, Analytics and Product Management Sarah Davies discussing how a tax lien would affect a consumer's VantageScore.

Davies said VantageScore Solutions research showed a tax lien typically represents a 100-point drop in a credit score or a derogatory event equivalent to a foreclosure. She explained that a withdrawal of a lien certificate would erase the lien's negative impact on a credit score.

To read the full article, go to:

<http://www.businessweek.com/news/2010-01-06/irs-lien-procedures-ineffective-harmful-report-says-update2-.html>

VantageScore Solutions 2010 Conference Schedule

VantageScore Solutions will be sponsoring/attending these upcoming events:

American Securitization Forum "ASF 2010"

Jan. 31-Feb. 3

Washington, D.C.

<http://www.americansecuritization.com/story.aspx?id=3321>

Mortgage Bankers Association

National Mortgage Servicing Conference & Expo

Feb. 23-26

Manchester Grand Hyatt

San Diego, Calif.,

<http://events.mortgagebankers.org/servicing2010/default.html>

AREAA/NAHREP/NAREB

Multicultural Real Estate & Policy Conference

March 3-6

Ritz-Carlton

Washington, D.C.

<http://www.areas.org/events.php?PHPSESSID=d8cfab29bc351a723558e4f357ae07be>

14th Annual National Collections & Credit Risk Conference

VantageScore Solutions President and CEO Barrett Burns will serve as conference chairman.

March 21-23

Intercontinental Miami Hotel

Miami, FL

<http://www.americanbanker.com/conferences/nccr10/>

22nd Annual Card Forum and Expo

May 16-18

Hyatt Regency Central Cypress

Orlando, FL

<http://www.americanbanker.com/conferences/cfe10/>

About VantageScore

VantageScore is the generic credit scoring model created by America's three major credit reporting companies. Our highly predictive model uses an innovative, patent-pending scoring methodology to provide lenders with a consistent interpretation of consumer credit files. This means lenders can help more creditworthy borrowers, and millions of Americans who use credit infrequently can be accurately scored.

VANTAGESCORE®

The New Standard in Credit Scoring.

VantageScore.com